

**REPORT OF THE AUDIT OF THE
RUSSELL COUNTY
FISCAL COURT**

**For The Fiscal Year Ended
June 30, 2002**



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE RUSSELL COUNTY FISCAL COURT

**Fiscal Year Ended
June 30, 2002**

The Auditor of Public Accounts has completed the Russell County Fiscal Court audit for the fiscal year ended June 30, 2002. We have issued an unqualified opinion on the financial statements taken as a whole. Based upon the audit work performed, the financial statements are presented fairly in all material respects.

Financial Condition:

Cash balances increased by \$310,665 from the beginning of the year, resulting in a cash surplus of \$703,760 as of June 30, 2002.

Debt Obligations:

Total bonded debt principal as of June 30, 2002, was \$170,000. Future collections of \$95,512 are needed over the next two years to pay all bonded debt principal and interest.

Capital lease principal agreements totaled \$303,245 as of June 30, 2002. Future principal and interest payments of \$354,264 are needed to meet these obligations.

Report Comment:

- Fiscal Court Should Amend Budget For Expenditure Of Unanticipated Receipts

Deposits:

The fiscal court's deposits were insured and collateralized by bank securities or bonds.

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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Charles M. Smith, Russell County Judge/Executive

Members of the Russell County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of assets, liabilities, and equity arising from cash transactions of Russell County, Kentucky as of June 30, 2002, the statement of cash receipts, cash disbursements, and changes in cash balances, and the related statement of cash flows for the year then ended. These financial statements are the responsibility of the Russell County Fiscal Court. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements of the Russell County Tourist Commission. Other auditors whose reports have been furnished to us audited those financial statements, and our opinion, insofar as it relates to the amounts included for the Russell County Tourist Commission, is based on the reports of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Fiscal Court Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, Russell County, Kentucky, prepares its financial statements on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the assets, liabilities, and equity arising primarily from cash transactions of Russell County, Kentucky as of June 30, 2002, and the revenues received and expenditures paid, and the cash flows of its enterprise fund for the year then ended in conformity with the modified cash basis of accounting.



To the People of Kentucky
Honorable Paul E. Patton, Governor
Gordon C. Duke, Secretary
Finance and Administration Cabinet
Dana Mayton, Secretary, Revenue Cabinet
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Members of the Russell County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated November 1, 2002 on our consideration of Russell County, Kentucky's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The accompanying financial information listed as supporting schedules in the table of contents is presented for purposes of additional analysis and is not a required part of the financial statements of Russell County, Kentucky. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, and is not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Based on the results of our audit, we present the schedule of findings and questioned costs, included herein, which discusses the following report comment:

- Fiscal Court Should Amend Budget For Expenditure Of Unanticipated Receipts

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
November 1, 2002

RUSSELL COUNTY OFFICIALS

For The Fiscal Year Ended June 30, 2002

Fiscal Court Members:

Charles M. Smith	County Judge/Executive
Herlen R. Lawless	Magistrate
Mickey Garner	Magistrate
Cecil Roy	Magistrate
Bradley A. Redmon	Magistrate
Larry W. Holt	Magistrate

Other Elected Officials:

Howard Kent Cooper	County Attorney
Darrell L. McQueary	Jailer
Brigette Popplewell	County Clerk
Tony Kerr	Circuit Court Clerk
Larry L. Bennett	Sheriff
Rodney G. Owens	Property Valuation Administrator
Larry D. Skaggs	Coroner

Appointed Personnel:

Anita Tucker	County Treasurer
Glenna Helm	Occupational Tax Collector
Tonya Boyd	Occupational Tax Collector
Glenna Helm	Finance Officer
Tonya Boyd	Personnel Officer
Ronnie McGaha	Road Supervisor
Sheila McGaha	911 Administrator

STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

RUSSELL COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS

June 30, 2002

	<u>Governmental Fund Types</u>		
	<u>General</u>	<u>Special Revenue</u>	<u>Debt Service</u>
<u>Assets and Other Resources</u>			
<u>Assets</u>			
Cash	\$ 589,043	\$ 21,174	\$ 93,013
Total Assets	\$ 589,043	\$ 21,174	\$ 93,013
<u>Other Resources</u>			
Amounts To Be Provided In Future Years For:			
Capital Lease Agreements (Note 5B and 5C)	\$ 303,245	\$	\$
Bond Payments (Note 5A)			76,987
Total Other Resources	\$ 303,245	\$ 0	\$ 76,987
Total Assets and Other Resources	\$ 892,288	\$ 21,174	\$ 170,000

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
STATEMENT OF ASSETS, LIABILITIES,
AND EQUITY ARISING FROM CASH TRANSACTIONS
June 30, 2002
(Continued)

Proprietary Fund Type	Totals (Memorandum Only)	
	Primary Government	
<u>Enterprise</u>		
\$ 1,087	\$ 704,317	
\$ 1,087	\$ 704,317	
\$	\$ 303,245	
	76,987	
\$ 0	\$ 380,232	
\$ 1,087	\$ 1,084,549	

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
 STATEMENT OF ASSETS, LIABILITIES, AND EQUITY
 ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

	Governmental Fund Types		
	General	Special Revenue	Debt Service
<u>Liabilities and Equity</u>			
<u>Liabilities</u>			
Capital Lease Obligations - Principal Payments (Note 5B and 5C)	\$ 303,245	\$	\$
Bonds: Series 1992 (Note 5A)			170,000
Payroll Revolving Account	557		
Total Liabilities	\$ 303,802	\$	\$ 170,000
<u>Equity</u>			
Retained Earnings: Reserved	\$	\$	\$
Fund Balances: Reserved	31,365		
Unreserved	557,121	21,174	
Total Equity	\$ 588,486	\$ 21,174	\$ 0
Total Liabilities and Equity	\$ 892,288	\$ 21,174	\$ 170,000

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
 STATEMENT OF ASSETS, LIABILITIES,
 AND EQUITY ARISING FROM CASH TRANSACTIONS
 June 30, 2002
 (Continued)

Proprietary Fund Type	Totals (Memorandum Only) Primary Government
<u>Enterprise</u>	
\$	\$ 303,245
	170,000
	<u>557</u>
<u>\$</u>	<u>\$ 473,802</u>
\$	\$ 1,087
1,087	
	31,365
	<u>578,295</u>
<u>\$</u>	<u>\$ 610,747</u>
1,087	
<u>\$</u>	<u>\$ 1,084,549</u>
1,087	

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

RUSSELL COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES

For The Fiscal Year Ended June 30, 2002

	General Fund Types			
	Totals (Memorandum Only)	General Fund	Road and Bridge Fund	Jail Fund
<u>Cash Receipts</u>				
Schedule of Operating Revenue	\$ 3,821,323	\$ 1,733,711	\$ 1,125,691	\$ 114,150
Jail Canteen Receipts	5,448			
Other Financing Sources:				
Transfers In	559,175	95,875		390,000
Kentucky Advance Revenue Program	723,200	582,400	140,800	
Total Cash Receipts	\$ 5,109,146	\$ 2,411,986	\$ 1,266,491	\$ 504,150
<u>Cash Disbursements</u>				
Comparative Schedule of Final Budget and Budgeted Expenditures	\$ 3,371,048	\$ 1,180,441	\$ 825,187	\$ 481,515
Jail Canteen Expenditures	5,486			
Other Financing Uses:				
Schedule of Other Expenditures	10,643			
Transfers Out	559,175	394,000	160,175	
Bonds:				
Principal Paid	50,000			
Interest Paid	14,300			
Capital Lease Agreements:				
Principal Paid	54,993	17,993	37,000	
Kentucky Advance Revenue Program:				
Principal Paid	723,200	582,400	140,800	
Interest Paid	9,636	7,760	1,876	
Total Cash Disbursements	\$ 4,798,481	\$ 2,182,594	\$ 1,165,038	\$ 481,515
Excess (Deficiency) of Cash Receipts Over (Under) Cash Disbursements	\$ 310,665	\$ 229,392	\$ 101,453	\$ 22,635
Cash Balance - July 1, 2001	393,095	169,041	30,701	7,274
Cash Balance - June 30, 2002	\$ 703,760	\$ 398,433	\$ 132,154	\$ 29,909

The accompanying notes are an integral part of the financial statements.

RUSSELL COUNTY
STATEMENT OF CASH RECEIPTS,
CASH DISBURSEMENTS, AND CHANGES IN CASH BALANCES
For The Fiscal Year Ended June 30, 2002
(Continued)

General Fund Types	Special Revenue Fund Types			Debt Service Fund Type	Enterprise Fund Type
Local Government Economic Assistance Fund	Community Development Block Grant Fund	Tourism Fund	Airport Board Fund	Public Properties Corporation Fund	Jail Canteen Fund
\$ 12,658	\$ 709,051	\$ 114,797	\$ 9,507	\$ 1,758	\$ 5,448
			9,000	64,300	
<u>\$ 12,658</u>	<u>\$ 709,051</u>	<u>\$ 114,797</u>	<u>\$ 18,507</u>	<u>\$ 66,058</u>	<u>\$ 5,448</u>
\$ 10,598	\$ 758,000	\$ 115,307	\$	\$	\$ 5,486
			10,643		
5,000				50,000	
				14,300	
<u>\$ 15,598</u>	<u>\$ 758,000</u>	<u>\$ 115,307</u>	<u>\$ 10,643</u>	<u>\$ 64,300</u>	<u>\$ 5,486</u>
\$ (2,940)	\$ (48,949)	\$ (510)	\$ 7,864	\$ 1,758	\$ (38)
30,930	48,949	11,737	2,083	91,255	1,125
<u>\$ 27,990</u>	<u>\$ 0</u>	<u>\$ 11,227</u>	<u>\$ 9,947</u>	<u>\$ 93,013</u>	<u>\$ 1,087</u>

The accompanying notes are an integral part of the financial statements.

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STATEMENT OF CASH FLOWS-
PROPRIETARY FUND TYPE

RUSSELL COUNTY
STATEMENT OF CASH FLOWS-
PROPRIETARY FUND TYPE

For The Fiscal Year Ended June 30, 2002

	<u>Enterprise Fund Type</u>
	<u>Jail Canteen Fund</u>
Cash Flows From Operating Activities:	
Cash Received From Inmates	\$ 5,448
Payments to Suppliers	(4,719)
Other Payments	<u>(767)</u>
Net Cash Used By Operating Activities	\$ (38)
Cash and Cash Equivalents - Beginning	<u>1,125</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 1,087</u></u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities:	
Operating Loss	<u><u>\$ (38)</u></u>

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS

June 30, 2002

Note 1. Summary of Significant Accounting Policies

A. Reporting Entity

The financial statements of Russell County include the funds, agencies, boards, and entities for which the fiscal court is financially accountable. Financial accountability, as defined by Section 2100 of the GASB Codification of Governmental Accounting and Financial Reporting Standards, as amended by GASB 14, was determined on the basis of the government's ability to significantly influence operations, select the governing authority, participate in fiscal management and the scope of public service. Based upon the criteria stated in GASB 14, management has included the Russell County Tourist Commission, Russell County Airport Board, and Russell County Public Properties Corporation as part of the reporting entity.

Russell County Tourist Commission

On December 12, 1981, Russell County Fiscal Court (Fiscal Court) established the Russell County Tourist Commission (Commission) pursuant to KRS 91A.350(2) for the purpose to promote the recreation, tourist, and convention activity in Russell County. The Commission is composed of seven members appointed by the Russell County Judge/Executive with the approval of the Fiscal Court. Five members are appointed by the County Judge/Executive from lists submitted by third parties. Two members are appointed at-large by the County Judge/Executive. The Commission's governing body is substantially different from the Fiscal Court. However, the Commission is fiscally dependent on the Fiscal Court because the Fiscal Court controls its major source of revenue. The Commission's major source of revenue is the transient room tax. On December 12, 1981 the Fiscal Court enacted an ordinance imposing a transient room tax. The Fiscal Court currently collects "3% of the gross rent for every occupancy of a suite, room or rooms charged and collected." The Fiscal Court is to issue monthly checks to the Commission. This fiscal dependency requires the Fiscal Court to include the Commission as a component unit. The Commission is not included in any other organization's reporting entity and does not provide services exclusively to the Fiscal Court; therefore, the financial activity of the Commission is discretely presented in Appendix B.

Russell County Airport Board

On November 5, 1986, Supreme Court of Kentucky ruled that the Russell County Airport Board (Airport Board) was not a legally formed entity under KRS 183.132, and therefore was subordinate to Russell County Fiscal Court (Fiscal Court). Therefore, Fiscal Court is financially accountable for the Airport Board; legally entitled to the Airport Board's resources as well as legally obligated for the Airport Board's debt. Financial information for the Airport Board is blended within Russell County's financial statements

RUSSELL COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

A. Reporting Entity (Continued)

Russell County Public Properties Corporation

Fiscal Court has the authority to appoint a voting majority of the Public Properties Corporation's (PPC) Board of Directors. Fiscal Court also has the ability to approve or modify the PPC's budget, approve or modify rate or fee changes affecting revenues, veto, overrule, or modify decisions of the Board of Directors, or otherwise impose its will on the PPC. In addition, Fiscal Court is financially accountable for the PPC; legally entitled to the PPC's resources as well as legally obligated for the PPC's debt. Financial information for the Public Properties Corporation is blended within Russell County's financial statements.

Additional - Russell County Constitutional Elected Officials

- Circuit Court Clerk
- County Attorney
- County Clerk
- County Sheriff
- Property Valuation Administrator

The Kentucky constitution provides for election of the above officials from the geographic area constituting Russell County. Pursuant to state statute, these officials perform various services for the Commonwealth of Kentucky, its judicial courts, the fiscal court, various cities and special districts within the county, and the board of education. In exercising these responsibilities, however, they are required to comply with state laws. Audits of their financial statements are issued separately and individually and can be obtained from their respective administrative offices.

B. Fund Accounting

Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities. The government uses funds to report on its financial position and the results of its operations. A fund is a separate accounting entity with a self-balancing set of accounts. Russell County Fiscal Court's Fund Types, a definition of each, and county funds included within each fund type are listed below.

1) General Fund Type

General Fund Type accounts for all financial resources except those required to be accounted for in another fund type. The Russell County General Fund Type includes the following county funds: General Fund, Road and Bridge Fund, Jail Fund, and Local Government Economic Assistance Fund.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

B. Fund Accounting (Continued)

2) Special Revenue Fund Type

Special Revenue Fund Type accounts for the proceeds of specific revenue sources that are legally restricted to expenditures for the specified purpose. The Russell County Special Revenue Fund Type includes the following county funds: Community Development Block Grant Fund, Tourism Fund, and Airport Board Fund.

3) Debt Service Fund Type

Debt Service Fund Type accounts for the accumulation of resources for the payment of general long-term debt principal and interest and includes funds for the Public Properties Corporation Fund. Debt service is provided through annual transfers from the General Fund Type in the amount of the debt service requirements for the year.

4) Enterprise Fund Type

The Enterprise Fund Type is used to report an activity for which a fee is charged to external users for goods or services. The Russell County Enterprise Fund Type includes the Jail Canteen Fund, which is maintained by the county jailer.

The canteen operations are authorized pursuant to KRS 441.135(1), which allows the jailer to sell snacks, sodas, and other items to inmates. The profits generated from the sale of those items are to be used for the benefit or recreation of the inmates. KRS 441.135(2) requires the jailer to maintain accounting records and report annually to the county treasurer the receipts and disbursements of the jail canteen. Technical Audit Bulletin 93-002 provides additional accounting and expenditure guidance for acceptable jail canteen operations. All profit expenditures were for the benefit and/or recreation of the inmates.

C. Basis of Accounting

For all fund types, the county utilizes a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, assets, liabilities, and related revenues and expenditures are recorded when they result from cash transactions, with a few exceptions. This modified cash basis recognizes revenues when received and expenditures when paid. Long-term receivables, deferred revenue, long-term obligations and amounts to be provided in future years to retire debt are recorded in the financial statements. The amount to be provided in future years to retire debt is offset by any cash or cash equivalents held by the county in a bond or debt service fund.

The State Local Finance Officer does not require the county to maintain a general fixed assets group of accounts; therefore the value of the county's fixed assets is not included in the financial statements. These fixed assets include buildings, equipment and land that are owned by the county.

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

D. Legal Compliance - Budget

The Russell County budget is adopted on a cash basis of accounting and according to the laws of Kentucky as required by the State Local Finance Officer. The County Judge/Executive is required to submit estimated receipts and proposed expenditures to the fiscal court by May 1 of each year. The budget is prepared by fund, function, and activity and is required to be adopted by the fiscal court by July 1.

The fiscal court may change the original budget by transferring appropriations at the activity level; however, the fiscal court may not increase the total budget without approval by the State Local Finance Officer. Expenditures may not exceed budgeted appropriations at the activity level. During fiscal year 2002, expenditures of the Tourism Fund were over budgeted by \$6,976. Also, the Community Development Block Grant expenditures were over budgeted by \$124,662.

A formal budget is not adopted for the Public Properties Corporation Fund because bond indentures and other relevant contractual provisions require specific payments to and from this fund annually and transfers are budgeted in the General Fund Type to comply with these requirements. The Department for Local Government does not require this fund to be budgeted. In addition, a formal budget is not adopted for the Russell County Airport Board Fund and the Russell County Jail Canteen Fund. The Department for Local Government does not require these funds to be budgeted.

E. Cash and Investments

Cash includes amounts in bank accounts, and investments are stated at cost. For the purpose of the statement of cash flows, the county considers all investments with a maturity date of three months or less when purchased to be cash equivalents.

KRS 66.480 authorizes the county to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

F. Related Organization

A related organization is an entity for which a primary government is not financially accountable. It does not impose will or have a financial benefit or burden relationship, even if the primary government appoints a voting majority of the related organizations governing board. Based on these criteria, the following are considered related organizations of Russell County Fiscal Court:

Russell County Ambulance Service District
Russell County Hospital

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

G. Joint Venture

A legal entity or other organization that results from a contractual agreement and that is owned, operated, or governed by two or more participants as a separate activity subject to joint control, in which the participants retain (a) an ongoing financial interest or (b) an ongoing financial responsibility is a joint venture. Based upon these criteria, the following is considered a joint venture of Russell County Fiscal Court: 911 Dispatch Consortium (Consortium). The Consortium is composed of Fiscal Court, City of Jamestown, City of Russell Springs, and Russell County Emergency Medical Services District. Each member of the consortium accepts "responsibility equally for any and all operating expenses and emergency needs approved by the management team, and agree to pay for such costs in equal proportions of one-fourth each." During fiscal year 2002, the Fiscal Court appropriated \$35,000 and expended \$30,900 for the Consortium.

H. Jointly Governed Organization

A regional government or other multi-governmental arrangement that is governed by representatives from each of the governments that created the organization, but that is not a joint venture because the participants do not retain an ongoing financial interest or responsibility is a jointly governed organization. Based on these criteria, the following is considered a jointly governed organization of the Russell County Fiscal Court: Russell County Industrial Development Authority.

Note 2. Employee Retirement System

The county has elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system which covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 6.41 percent.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65.

Historical trend information showing the CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement Systems' annual financial report.

Note 3. Deferred Compensation

On May 9, 1994 the Russell County Fiscal Court voted to allow interested employees to participate in deferred compensation plans administered by The National Association of Counties. These deferred compensation plans permit employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation of employees in the deferred compensation plans is voluntary.

RUSSELL COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 4. Deposits

The county maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the county and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of June 30, 2002, the county's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the county's agent in the county's name, or provided surety bond which named the county as beneficiary/obligee on the bond.

Note 5. Long Term Debt

A. Public Properties Corporation Bonds

On October 1, 1992, the Public Properties Corporation issued Public Project Revenue Bond Series 1992 in the amount of \$585,000; the proceeds of which were used to finance the county's road paving project. Principal and interest are due annually in April. The last bonds mature in April 2004. Bonds outstanding as of June 30, 2002, are \$170,000. Future debt service requirements are:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>
2003	\$ 11,050	\$ 55,000
2004	<u>7,475</u>	<u>115,000</u>
Totals	<u>\$ 18,525</u>	<u>\$ 170,000</u>

B. Capital Lease Obligation

On May 12, 1998, Russell County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$400,000. The funds were used for a road-paving project. The county is in substantial compliance with the lease agreement as of June 30, 2002. The lease matures on January 20, 2008, and interest is to be paid monthly based upon a 4.50% interest rate. Principal is to be paid on January 20th annually. The principal balance outstanding as of June 30, 2002, is \$235,000. Future principal and interest requirements are:

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 5. Long Term Debt (Continued)

B. Capital Lease Obligation (Continued)

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>
2003	\$ 12,098	\$ 39,000
2004	9,895	41,000
2005	7,605	42,000
2006	5,236	44,000
2007	2,751	46,000
2008	742	23,000
Totals	<u>\$ 38,327</u>	<u>\$ 235,000</u>

C. Capital Lease Obligation

On April 26, 2001, Russell County Fiscal Court entered into a lease agreement with the Kentucky Association of Counties Leasing Trust Program in the amount of \$75,000. The funds were used to purchase a fire truck. The county is in substantial compliance with the lease agreement as of June 30, 2002. The lease matures on May 20, 2011 and interest is to be paid monthly based upon a 3.25% interest rate. Principal and interest are to be paid on the 20th of each month. The principal balance outstanding as of June 30, 2002, is \$68,245. Future principal and interest requirements are:

<u>Fiscal Year</u>	<u>Interest</u>	<u>Principal</u>
2003	\$ 2,555	\$ 6,676
2004	2,297	6,896
2005	2,022	7,123
2006	1,734	7,358
2007	1,444	7,601
2008-2011	2,640	32,591
Totals	<u>\$ 12,692</u>	<u>\$ 68,245</u>

RUSSELL COUNTY
NOTES TO FINANCIAL STATEMENTS
June 30, 2002
(Continued)

Note 6. Material Grants

A. Kentucky Community Development Block Grant Program

Russell County Fiscal Court was awarded a federal grant in the amount of \$1,000,000 from the United States Department of Housing and Urban Development, passed through the Department for Local Government, Commonwealth of Kentucky, Kentucky Community Development Block Grant Program, to provide funds for the Russell County Business Park Development Project. These funds are passed through to the Russell County Industrial Development Authority. The unexpended balance as of June 30, 2001, was \$48,949. During fiscal year 2002, Russell County Fiscal Court received grant funds of \$709,051 and spent funds totaling \$758,000. The unexpended balance as of June 30, 2002, was \$0.

B. Lake Cumberland Children's Advocacy Center Grant

Russell County Fiscal Court was awarded a grant in the amount of \$106,000 from the Cabinet for Families and Children, Commonwealth of Kentucky, to assist in the purchase or renovation of a building to house the Lake Cumberland Children's Advocacy Center. These funds are passed through to the Lake Cumberland Children's Advocacy Center. During fiscal year 2002, the Russell County Fiscal Court received funds of \$106,000 and spent funds totaling \$106,000. The unexpended balance as of June 30, 2002, was \$0.

Note 7. Reserved Fund Balances

A. General Fund

1. The Russell County Fiscal Court was awarded a federal grant in the amount of \$10,000 from the Kentucky Flex-E Grant Program from the Appalachian Regional Commission, to provide funds for developing a strategic development plan. During fiscal year 2002, Russell County Fiscal Court received grant funds of \$5,000 and did not spend any funds. The unexpended balance as of June 30, 2002, was \$5,000.
2. The Russell County Fiscal Court was awarded a grant in the amount of \$26,365 from the Kentucky Area Development Fund, Department for Local Government, Commonwealth of Kentucky, for the Russell County Rescue Squad Building Renovation Project. During fiscal year 2002, Russell County Fiscal Court received grant funds of \$26,365 and did not spend any funds. The unexpended balance as of June 30, 2002, was \$26,365.

B. Russell County Jail Canteen

The fund balance of the Russell County Jail Canteen is reserved because these funds are legally restricted to be used for the benefit and/or recreation of the inmates. As of June 30, 2002, the fund balance of the Russell County Jail Canteen was \$1,087.

RUSSELL COUNTY
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2002
 (Continued)

Note 8. Insurance

For the fiscal year ended June 30, 2001, Russell County was a member of the Kentucky Association of Counties' All Lines Fund (KALF). KALF is a self-insurance fund and was organized to obtain lower cost coverage for general liability, property damage, public officials' errors and omissions, public liability, and other damages. The basic nature of a self-insurance program is that of a collectively shared risk by its members. If losses incurred for covered claims exceed the resources contributed by the members, the members are responsible for payment of the excess losses.

Note 9. Accounts Payable

As of June 30, 2002, Russell County Fiscal Court owed Gaddie-Shamrock \$159,847. This amount includes goods and services received for the following fiscal years:

	<u>Fiscal Year</u>	<u>Amount</u>
	1997	\$ (8,290)
	2000	5,147
	2001	6,656
	<u>2002</u>	<u>156,334</u>
Total Due as of June 30, 2002		\$ 159,847
Total Paid as of August 27, 2002		<u>106,857</u>
Total Due as of August 27, 2002		<u>\$ 52,990</u>

Gaddie-Shamrock submitted a letter to the County Judge/Executive, which stated, "as of September 25, 2002, this letter is to confirm the status of Russell County Fiscal Court account with us. As of the current date, the fiscal court has paid their bills according to the terms agreed to between Gaddie-Shamrock, LLC and the fiscal court." Gaddie-Shamrock does not charge the fiscal court late fees or service charges if the invoices are not paid within (30) working days.

COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

RUSSELL COUNTY
COMPARATIVE SCHEDULE OF
BUDGETED TO ACTUAL OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

<u>Budgeted Funds</u>	<u>Budgeted Operating Revenue</u>	<u>Actual Operating Revenue</u>	<u>Over (Under) Budget</u>
<u>General Fund Types</u>			
General Fund	\$ 1,803,789	\$ 1,733,711	\$ (70,078)
Road and Bridge Fund	1,124,712	1,125,691	979
Jail Fund	102,530	114,150	11,620
Local Government Economic Assistance Fund	12,587	12,658	71
<u>Special Revenue Fund Types</u>			
Tourism Fund	96,594	114,797	18,203
Community Development Block Grant Fund	<u>633,338</u>	<u>709,051</u>	<u>75,713</u>
Totals	<u>\$ 3,773,550</u>	<u>\$ 3,810,058</u>	<u>\$ 36,508</u>
<u>Reconciliation</u>			
Total Budgeted Operating Revenue Above			\$ 3,773,550
Add: Budgeted Prior Year Surplus			245,131
Less: Other Financing Uses			<u>(128,293)</u>
Total Operating Budget Per Comparative Schedule Of Final Budget and Budgeted Expenditures			<u>\$ 3,890,388</u>

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SCHEDULE OF OPERATING REVENUE

RUSSELL COUNTY
SCHEDULE OF OPERATING REVENUE

For The Fiscal Year Ended June 30, 2002

Revenue Categories	GOVERNMENTAL FUND TYPES			
	Totals (Memorandum Only)	General Fund Types	Special Revenue Fund Types	Debt Service Fund Type
Taxes	\$ 933,167	\$ 818,483	\$ 114,684	\$
In Lieu Tax Payments	180,116	180,116		
Excess Fees	114,589	114,589		
Intergovernmental Revenues	2,207,221	1,498,170	709,051	
Charges for Services	26,543	26,543		
Miscellaneous Revenues	331,238	321,731	9,507	
Interest Earned	28,449	26,578	113	1,758
Total Operating Revenue	<u>\$ 3,821,323</u>	<u>\$ 2,986,210</u>	<u>\$ 833,355</u>	<u>\$ 1,758</u>

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COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

RUSSELL COUNTY
COMPARATIVE SCHEDULE OF
FINAL BUDGET AND BUDGETED EXPENDITURES

For The Fiscal Year Ended June 30, 2002

Expenditure Categories	GENERAL FUND TYPES		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
General Government	\$ 516,073	\$ 448,140	\$ 67,933
Protection to Persons and Property	493,833	482,021	11,812
General Health and Sanitation	238,107	54,682	183,425
Recreation and Culture	34,000	33,250	750
Roads	872,125	756,142	115,983
Airports	750	750	
Debt Service	42,633	13,125	29,508
Administration	951,198	709,631	241,567
Total Operating Budget - General Fund Types	\$ 3,148,719	\$ 2,497,741	\$ 650,978
Other Financing Uses:			
Transfers to Airport Board Fund	9,000	9,000	
Transfers to Public Properties Corporation Fund	64,300	64,300	
Capital Lease Agreement- Principal on Leases	54,993	54,993	
TOTAL BUDGET - GENERAL FUND TYPES	<u>\$ 3,277,012</u>	<u>\$ 2,626,034</u>	<u>\$ 650,978</u>
Expenditure Categories	SPECIAL REVENUE FUND TYPES		
	Final Budget	Budgeted Expenditures	Under (Over) Budget
Recreation and Culture	\$ 108,331	\$ 115,307	\$ (6,976)
Administration	633,338	758,000	(124,662)
TOTAL BUDGET - SPECIAL REVENUE FUND TYPES	<u>\$ 741,669</u>	<u>\$ 873,307</u>	<u>\$ (131,638)</u>

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SCHEDULE OF OTHER EXPENDITURES

RUSSELL COUNTY
SCHEDULE OF OTHER EXPENDITURES

For The Fiscal Year Ended June 30, 2002

<u>Expenditure Items</u>	<u>GOVERNMENTAL FUND TYPE</u>	
	<u>Special Revenue Fund Type</u>	
	<u>Airport Board Fund</u>	
Utilities	\$	2,556
Supplies		1,667
Maintenance Contract - Weather Service		2,800
Miscellaneous		133
Hangar Construction		3,487
		<hr/>
Total Expenditures	\$	<u>10,643</u>

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER
FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Charles M. Smith, Russell County Judge/Executive

Members of the Russell County Fiscal Court

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements of Russell County, Kentucky, as of and for the year ended June 30, 2002, and have issued our report thereon dated November 1, 2002. We did not audit the financial statements of the Russell County Tourist Commission. Other auditors whose reports have been furnished to us audited those financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Russell County's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying schedule of findings and questioned costs.

- 2002-1 Fiscal Court Should Amend Budget For Expenditure Of Unanticipated Receipts

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Russell County's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting.



Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Russell County's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

- 2002-1 Fiscal Court Should Amend Budget For Expenditure Of Unanticipated Receipts

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we consider the reportable condition described above to be a material weakness.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
November 1, 2002

REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133



EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable Charles M. Smith, Russell County Judge/Executive

Members of the Russell County Fiscal Court

Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133

Compliance

We have audited the compliance of Russell County, Kentucky, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2002. Russell County's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Russell County's management. Our responsibility is to express an opinion on Russell County's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Russell County's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Russell County's compliance with those requirements.

In our opinion, Russell County complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2002.



Report On Compliance With Requirements
Applicable To Each Major Program And On Internal Control
Over Compliance In Accordance With OMB Circular A-133
(Continued)

Internal Control Over Compliance

The management of Russell County is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Russell County's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, federal awarding agencies, and pass-through entities, and is not intended to be, and should not be, used by anyone other than the specified parties.

Respectfully submitted,



Edward B. Hatchett, Jr.
Auditor of Public Accounts

Audit fieldwork completed -
November 1, 2002

FINDINGS AND QUESTIONED COSTS

RUSSELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

For The Fiscal Year Ended June 30, 2002

A. SUMMARY OF AUDIT RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of Russell County.
2. One reportable condition disclosed during the audit of the financial statements is reported in the Independent Auditor's Report. This condition is reported as a material weakness.
3. One instance of noncompliance material to the financial statements of Russell County was disclosed during the audit.
4. No reportable conditions relating to the audit of the major federal awards programs are reported in the Independent Auditor's Report.
5. The auditor's report on compliance for the audit of the major federal awards programs for Russell County expresses an unqualified opinion.
6. There are no audit findings relative to the major federal awards programs for Russell County reported in Part C of this schedule.
7. The program tested as a major program was: Community Development Block Grant – Small Cities
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. Russell County was not determined to be a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

REPORTABLE CONDITION AND NONCOMPLIANCE

Reference Number 2002-1

Fiscal Court Should Amend Budget For Expenditure Of Unanticipated Receipts

KRS 68.280 requires the fiscal court to amend their budget "for the expenditure of receipts unanticipated in the original budget." KRS 68.300 states "[a]ny appropriation made or claim allowed by the fiscal court in excess of any budget fund, and any warrant or contract not within the budget appropriation, shall be void." In addition, the Russell County Administrative Code Section 3.4.D. states, "[n]o appropriations may be made which exceed adopted budget amounts." For fiscal year 2002, Russell County Fiscal Court's budgeted expenditures were over final budget in the Special Revenue Fund Type by \$131,638, \$124,662 in the Community Development Block Grant Fund and \$6,976 in the Tourism Fund. The Department for Local Government approved a separate grant budget for Community Development Block Grant funds. We recommend Fiscal Court amend their budget for the expenditure of unanticipated receipts and expenditures in their budget. The fiscal court should also approve the payment of Community Development Block Grant payments.

County Judge/Executive Charles M. Smith's Response:

We were under the understanding that the resolution which I signed and was approved by the fiscal court that this covered all documentation. This was approved by department for local government.

PRIOR YEAR FINDINGS - FINANCIAL STATEMENT AUDIT

None.

RUSSELL COUNTY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For The Fiscal Year Ended June 30, 2002
(Continued)

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARDS PROGRAM
AUDIT

None.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

RUSSELL COUNTY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Federal Grantor Program Title <u>Grant Name (CFDA #)</u>	<u>Pass-Through Grantor's Number</u>	<u>Expenditures</u>
Cash Programs:		
U.S. Department of Housing and <u>Urban Development</u>		
Passed-Through State Department for Local Government:		
Community Development Block Grant - Small Cities (CFDA #14.219)	00-034	\$ 758,000
<u>U.S. National Oceanic Atmospheric Administration</u>		
Passed-Through the Center for Rural Development		
PRIDE Community Grant Program	CS00-50	4,941
<u>U. S. Federal Emergency Management Agency</u>		
Passed-Through State Department of Military Affairs:		
Disaster and Emergency Assistance Grant- Coordinator Salary (CFDA #83.503)		<u>940</u>
Total Cash Expenditures of Federal Awards		<u><u>\$ 763,881</u></u>

RUSSELL COUNTY
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For The Fiscal Year Ended June 30, 2002

Note 1 - Basis of Presentation

This schedule is presented on a modified cash basis of accounting.

Note 2 - As required by this grant agreement, all program moneys received by the recipient after the completion of all recipient grant activities shall be used by the recipient for community or economic development activities eligible for assistance under Title I of the Housing and Community Development Act of 1974, so specified in the Commonwealth of Kentucky's Community Development Block Grant Eligible Activities Policy Statement.

Note 3 - The federal expenditures for Community Development Block Grant - Small Cities consist of a grant to a subrecipient:

<u>Subrecipient</u>	<u>Number</u>	<u>Pass-through Grant Amount</u>
Russell County Industrial Development Authority	00-034	\$ <u>758,000</u>

CERTIFICATION OF COMPLIANCE -
LOCAL GOVERNMENT ECONOMIC ASSISTANCE PROGRAM

RUSSELL COUNTY FISCAL COURT

For The Fiscal Year Ended June 30, 2002

AUDIT REPORT OF THE RUSSELL COUNTY TOURIST COMMISSION

For The Fiscal Year Ended June 30, 2002

RUSSELL COUNTY TOURIST COMMISSION

**REPORT ON AUDIT
OF FINANCIAL STATEMENTS
Year Ended December 31, 2001**

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CAMPBELL, MYERS & RUTLEDGE
CERTIFIED PUBLIC ACCOUNTANTS

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Independent Auditors' Report

Russell County Tourist Commission
Russell Springs, Kentucky

We have audited the accompanying financial statements of **Russell County Tourist Commission**, a component unit of the County of Russell, Kentucky, as of and for the year ended December 31, 2001. These financial statements are the responsibility of the **Russell County Tourist Commission**. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of **Russell County Tourist Commission**, as of December 31, 2001, and the results of its operations for the year then ended in conformity with generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued a report dated April 26, 2002 on our consideration of **Russell County Tourist Commission's** internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.


Certified Public Accountants

April 26, 2002

RUSSELL COUNTY TOURIST COMMISSION
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
December 31, 2001

		<u>Account Groups</u>	
	<u>Special Revenue</u>	<u>General Fixed Assets</u>	<u>General Long-Term Debt</u>
ASSETS:			
Cash	\$ 30,032	\$ -0-	\$ -0-
Accounts receivable	8,564	-	-
Due from Russell County Fiscal Court	1,000	-	-
PROPERTY, PLANT AND EQUIPMENT:			
Building and improvements	-	204,248	-
Equipment and furniture	-	44,528	-
Land	-	30,240	-
AMOUNT TO BE PROVIDED FOR RETIREMENT OF GENERAL LONG-TERM DEBT	<u>-</u>	<u>-</u>	<u>128,480</u>
TOTAL ASSETS	<u>\$ 39,596</u>	<u>\$279,016</u>	<u>\$ 128,480</u>
LIABILITIES:			
Accrued liabilities	\$ 1,901	\$ -0-	\$ -0-
Notes payable, 8%	<u>-</u>	<u>-</u>	<u>128,480</u>
TOTAL LIABILITIES	<u>1,901</u>	<u>-</u>	<u>128,480</u>
FUND EQUITY:			
Investment in general fixed assets	-0-	279,016	-0-
Fund balance	<u>37,695</u>	<u>-</u>	<u>-</u>
TOTAL FUND EQUITY	<u>37,695</u>	<u>279,016</u>	<u>-</u>
TOTAL LIABILITIES AND FUND EQUITY	<u>\$ 39,596</u>	<u>\$279,016</u>	<u>\$ 128,480</u>

The accompanying notes are an integral
part of the financial statements.

RUSSELL COUNTY TOURIST COMMISSION
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - ALL GOVERNMENTAL FUND TYPES
Year Ended December 31, 2001

	<u>Special Revenue</u>
REVENUES:	
Motel taxes and penalties	\$ 113,924
Conference room rental	343
Matching funds	3,012
Chamber of Commerce	12,602
Promotional guide	1,800
Miscellaneous	<u>2,149</u>
Total Revenues	<u>133,830</u>
EXPENDITURES:	
Salaries and wages	47,844
Payroll taxes	3,556
Retirement contribution	2,970
Tourism promotion	3,019
Travel shows - Booth and furniture	2,400
Travel shows - Workers	2,634
Travel	3,132
Advertising	13,099
Postage	5,278
Shipping and freight	280
Utilities	2,448
Insurance	998
Telephone	2,390
Copier lease	647
Office supplies	2,537
Internet	788
Cleaning	2,632
Rental	755
Donations	300
Dues and subscriptions	1,070
Repairs and maintenance	539
Professional services	2,000
Merchandise	1,512
Miscellaneous	<u>1,124</u>
Total Expenditures	<u>103,952</u>
Excess of Revenues Over (Under) Expenditures	<u>29,878</u>

RUSSELL COUNTY TOURIST COMMISSION
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCE - ALL GOVERNMENTAL FUND TYPES, CONCLUDED
Year Ended December 31, 2001

	<u>Special Revenue</u>
OTHER FINANCING SOURCES (USES):	
Interest income	\$ 506
Interest expense (Note 2)	(9,689)
Note payments (Note 2)	(9,828)
Equipment and furniture purchases	<u>(8,667)</u>
Total Other Financing Sources (Uses)	<u>(27,678)</u>
EXCESS OF REVENUES AND OTHER SOURCES OVER (UNDER) EXPENDITURES	<u>2,200</u>
FUND BALANCE, JANUARY 1, 2001	<u>35,495</u>
FUND BALANCE, DECEMBER 31, 2001	<u><u>\$ 37,695</u></u>

RUSSELL COUNTY TOURIST COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - SPECIAL REVENUE FUND
Year Ended December 31, 2001
(With Comparative Actual Amounts For The Year Ended December 31, 2000)

	<u>2001</u>			
	<u>Budget</u>	<u>Actual</u>	Variance Favorable (Unfavorable)	<u>Actual 2000</u>
REVENUES:				
Motel taxes and penalties	\$ 107,000	\$113,924	\$ 6,924	\$ 111,541
Conference room rental	300	343	43	1,462
Matching funds	2,744	3,012	268	2,571
Chamber of Commerce	13,750	12,602	(1,148)	9,456
Industrial Authority	1,000	-	(1,000)	-
Promotional guide	1,800	1,800	-	20,578
Miscellaneous	850	2,149	1,299	521
Total Revenues	<u>127,444</u>	<u>133,830</u>	<u>6,386</u>	<u>146,129</u>
EXPENDITURES:				
Salaries and wages	48,500	47,844	656	40,258
Payroll taxes	4,000	3,556	444	3,127
Retirement contribution	3,100	2,970	130	2,869
Tourism promotion	4,200	3,019	1,181	25,592
Travel shows - Booth and Furniture	4,300	2,400	1,900	3,429
Travel shows - Workers	2,640	2,634	6	4,842
Travel	2,400	3,132	(732)	2,339
Advertising	11,163	13,099	(1,936)	24,916
Postage	5,000	5,278	(278)	4,279
Shipping and freight	400	280	120	315
Utilities	2,600	2,448	152	2,501
Insurance	1,100	998	102	1,034
Telephone	2,500	2,390	110	2,414
Copier lease	647	647	-	563
Office supplies	2,100	2,537	(437)	2,112
Internet	1,350	788	562	996
Cleaning	2,600	2,632	(32)	2,597
Rental	1,000	755	245	936
Donations	500	300	200	700
Dues and subscriptions	1,100	1,070	30	870
Repairs and maintenance	750	539	211	568
Professional services	2,000	2,000	-	1,925
Merchandise	-	1,512	(1, 512)	-
Miscellaneous	1,000	1,124	(124)	1,696
Total Expenditures	<u>104,950</u>	<u>103,952</u>	<u>998</u>	<u>130,878</u>
Excess of Revenue Over (Under)				
Expenditures	<u>22,494</u>	<u>29,878</u>	<u>7,384</u>	<u>15,251</u>

RUSSELL COUNTY TOURIST COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
BUDGET AND ACTUAL - SPECIAL REVENUE FUND, CONCLUDED
Year Ended December 31, 2001
(With Comparative Actual Amounts For The Year Ended December 31, 2000)

	<u>2001</u>			
	<u>Budget</u>	<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>	<u>Actual 2000</u>
OTHER FINANCING SOURCES				
(USES):				
Interest income	\$ 506	\$ 506	\$ -	\$ 582
Interest expense	(10,200)	(9,689)	511	(10,059)
Capital expenditures	(3,000)	(8,667)	(5,667)	(461)
Note payments	<u>(9,000)</u>	<u>(9,828)</u>	<u>(828)</u>	<u>(9,136)</u>
Total Other Financing Sources (Uses)	<u>(21,694)</u>	<u>(27,678)</u>	<u>(5,984)</u>	<u>(19,074)</u>
EXCESS OF REVENUES AND OTHER				
SOURCES OVER (UNDER)				
EXPENDITURES	<u>\$ (800)</u>	<u>2,200</u>	<u>\$ 1,400</u>	<u>(3,823)</u>
FUND BALANCE, JANUARY 1, 2001		<u>35,495</u>		<u>39,318</u>
FUND BALANCE, DECEMBER 31, 2001		<u>\$37,695</u>		<u>\$ 35,495</u>

The accompanying notes are an integral
part of the financial statements.

**RUSSELL COUNTY TOURIST COMMISSION
NOTES TO FINANCIAL STATEMENTS**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

History and Background:

On December 12, 1981, by request of the Russell County Motel Association and Restaurant Owners Association, Russell County Fiscal Court issued an Order in accordance with Kentucky Revised Statutes, Chapter 38, Section 340 through 83.350, establishing the Russell County Tourist Commission. In accordance with this law, a 3% transient room tax was levied on all room rentals, effective January 1, 1982. The tax is collected by all firms engaged in room rentals with the receipts used to promote tourism and travel to the Russell County area. The tax is submitted at the end of each month on forms supplied by the Tourist Commission.

Reporting Entity:

In applying the criteria set forth in GASB 14, the decision was made to include the Russell County Tourist Commission as a component unit of the Russell County Government unit.

Fund Accounting:

The accounts of the Commission are organized on the basis of funds and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues and expenditures. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statements in this report, into generic fund types and broad fund categories as follows:

Governmental Funds

Special Revenue Funds:

The Special Revenue Funds account for revenues derived from specific taxes or other earmarked revenue sources.

Fixed Assets and Long-Term Liabilities:

Fixed assets used in governmental fund type operations are accounted for in the General Fixed Assets Account Group, rather than in the governmental funds. Fixed assets derived from expenditures for land improvements other than buildings, (e.g., streets, sewer, sidewalks) have not been capitalized.

Fixed assets acquired or constructed for general governmental services are recorded as expenditures in the funds making the expenditures and capitalized at cost in the General Fixed Assets Account Group. Assets acquired by gift or contribution are recorded at fair market value at time of bequest or receipt.

RUSSELL COUNTY TOURIST COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONCLUDED:

Fixed Assets and Long-Term Liabilities, Concluded:

No depreciation has been provided on general fixed assets.

Long-term liabilities expected to be financed from governmental funds are accounted for in the General Long-Term Debt Account Group, not in the governmental funds.

Basis of Accounting:

Basis of accounting refers to when revenues and expenditures or expenses are recognized in accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Their revenues are recognized when they become measurable and available as net current assets. Taxpayer-assessed income, gross receipts and sales taxes are considered "measurable" when in the hands of intermediary collecting governments and are recognized as revenue at that time.

Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred. Exceptions to this general rule include: (1) accumulated unpaid vacation, sick pay and other employee amounts which are not accrued; and (2) principal and interest on general long-term debt which are recognized when due.

Budgets and Budgetary Accounting:

The annual budget for the Commission is adopted at the December meeting for the following calendar year. The budget is prepared in accordance with the basis of accounting utilized by each fund.

Receivables - Bad Debts:

The Commission uses the direct write-off method to account for bad debts. No allowance for bad debts has been provided as no material amounts are expected to be written off as of December 31, 2001. The direct write-off method does not significantly depart from generally accepted accounting principles.

Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

RUSSELL COUNTY TOURIST COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONTINUED

2. LONG-TERM DEBT:

A summary of long-term debt transactions for the year ended December 31, 2001, follows:

Note payable to Bank of Jamestown, payable in monthly payments of \$799.79, including interest at 7%, with final maturity December, 2011.	\$ 64,240
Note payable to First National Bank, payable in monthly payments of \$799.75, including interest at 7%, with final maturity December, 2011.	<u>64,240</u>
	<u>\$128,480</u>

Long-term debt matures in the next five years as follows:

2002	10,096
2003	10,826
2004	11,608
2005	12,447
2006	13,312

3. RETIREMENT PLAN:

Substantially all employees are covered under a statewide County Employee's Retirement System (CERS), a multiple-employer, public employers retirement system.

The contribution requirement for CERS for the year ended December 31, 2001, was \$5,015, which consisted of \$2,892 from the Commission and \$2,123 from the employees; these contributions represented 7.17%, 6.41% and 5.0% of covered payroll, respectively.

Benefits under the Plan will vary based on final compensation, years of service and other factors as fully described in the Plan documents.

The "pension benefit obligation" is a standardized disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the pensions' funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among the Plan and employers.

**RUSSELL COUNTY TOURIST COMMISSION
NOTES TO FINANCIAL STATEMENTS, CONCLUDED**

3. RETIREMENT PLAN, CONCLUDED:

CERS does not make separate measurements of assets and pension benefit obligation for individual employers. The following table presents certain information regarding the Plan's status as a whole, derived from actuarial valuations performed as of the dates indicated.

	<u>CERS as of June 30, 2001</u>
Assets available for benefits (At fair value)	\$ 6,910,500
Pension benefit obligation	<u>4,900,143</u>
Overfunded benefit obligation	<u>\$ (2,010,357)</u>

As the Commission is only one of several employers participating in the Plan, it is not practicable to determine the Commission's portion of the unfunded past service cost or the vested benefits of the Commission's portion of the Plan assets.

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Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance
With Government Auditing Standards

Russell County Tourist Commission
Russell Springs, Kentucky

We have audited the financial statements of Russell County Tourist Commission, a component unit of the County of Russell, Kentucky, for the year ended December 31, 2001, and have issued our report thereon dated April 26, 2002. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether Russell County Tourist Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Russell County Tourist Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Russell County Tourist Commission
Russell Springs, Kentucky
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This report is intended solely for the information and use of the audit committee, management, and others within the organization and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,


Campbell Myers & Rutledge
Certified Public Accountants

April 26, 2002

